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No. 05-130

IN THE

Supreme Court of the United States

eBAY, INC. and HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF *AMICI CURIAE* OF 35 INTELLECTUAL PROPERTY PROFESSORS IN SUPPORT OF THE PETITION FOR CERTIORARI

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INTEREST OF *AMICI CURIAE*

Amici are scholars at American law and business schools who teach, write about, or have an interest in patent law. Amici have no stake in the outcome of this case,[1] but are interested in ensuring that patent law develops in a way that best promotes innovation. A full list of amici is appended to the signature page. Both petitioner and respondent have consented to the filing of this brief.

REASONS FOR GRANTING THE PETITION

I. The Federal Circuit Has Abandoned the Role of Equity, in Defiance of the Statutory Language

Section 283 of the Patent Act is quite clear: district courts are granted the discretion to decide whether and under what circumstances to issue patent injunctions. The statute provides that courts "may" grant injunctions once infringement is found, but only "in accordance with principles of equity" and "on such terms as they deem reasonable." 35 U.S.C. § 283. Those principles of equity are well-established in a long line of cases, both from this Court and from the regional circuits. *See, e.g., Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) (setting out the four equitable factors to be considered in granting injunctive relief: (i) whether the plaintiff would face irreparable injury if the injunction did not issue; (ii) whether the plaintiff has an adequate remedy at law; (iii) whether granting the injunction is in the public interest; and (iv) whether the balance of hardships tips in the plaintiff's favor); *see also*

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1. No party other than the signatories has authored or paid for any part of this brief.

Mueller v. Wolfinger, 68 F. Supp. 485, 488 (D. Ohio 1946) (applying the factors under predecessor to Section 283).

The Court of Appeals for the Federal Circuit has effectively read the terms "may" and "in accordance with principles of equity" out of the statute. In no case in the last twenty years has the Federal Circuit permitted a district court to apply its equitable powers to refuse a permanent injunction after a finding of infringement.[2] Indeed, the court's grant of permanent injunctive relief is so automatic that it rarely even recites the equitable factors any longer, relying instead on an all-but-conclusive presumption that injunctive relief is appropriate. In this case, for example, the Federal Circuit made it clear that a district court had the power to deny injunctive relief only in exceptional circumstances. *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). Further, the only exceptional circumstance the court identified was one involving imminent danger to public health, in which case the court suggested it might be appropriate to consider the public interest in access to the invention.

The contrast with copyright cases is striking. The Copyright Act includes language quite similar to section

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2. The Federal Circuit occasionally affirms a refusal to grant *preliminary* injunctions, *see Hybritech Inc. v. Abbott Laboratories*, 849 F.2d 1446, 1458 (Fed. Cir. 1988), or to enter injunctions when the patentee has failed in some other aspect of proof, *see Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1273 (Fed. Cir. 1999) (patentee committed laches, and could not enjoin products produced during the period of its laches). But not since the 1984 decision in *Roche Products Inc. v. Bolar Pharmaceuticals Co.*, 733 F.2d 858, 866 (Fed. Cir. 1984), has it refused to enter a permanent injunction because of considerations of equity.

283, and which indeed seems more expansive than the patent statute with respect to injunctive relief because it lacks explicit reference to equity. 17 U.S.C. § 502(a) ("Any court . . . *may* . . . grant temporary and final injunctions *on such terms as it may deem reasonable*") (emphasis added). Nonetheless, this Court has twice noted that section 502(a) does not require the grant of injunctive relief after a finding of infringement. *See New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001) ("it hardly follows from today's decision [finding infringement] that an injunction . . . must issue"); *Campbell v. Acuff-Rose Music Co.*, 510 U.S. 569, 578 n.10 (1994) ("courts may also with to bear in mind that the goals of the copyright law . . . are not always best served by automatically granting injunctive relief").

The Federal Circuit's failure to apply a similar standard to patent law, its willingness to consider applying only a single one of the four equitable factors governing injunctive relief, and the fact that in the last twenty years it has never in fact permitted a district court to deny a permanent injunction on equitable grounds, all mean that as a practical matter it has denied courts the authority given them by section 283 to grant injunctions "in accordance with principles of equity."

II. Application of Equitable Factors is Important to Avoid Abuse of the Patent System

The Federal Circuit's refusal to permit district courts to apply the language of the statute has potentially serious consequences for the operation of the patent system. The goal of the equity requirement in the injunctive relief sections of the patent law is to ensure that people who actually need injunctive relief to protect their markets or ensure a return on their investment can get it, but that patent owners cannot

use the threat of an injunction against a complex product based on one infringing piece to hold up the defendant and extract a greater share of the value of that product than their patent warrants. Unfortunately, such inappropriate "holdups" occur on a regular basis under the Federal Circuit's mandatory-injunction standard.

We should be clear that the application of equitable principles would not mean that injunctions are generally problematic. Patent law is a property rule, and injunctive relief is the appropriate remedy in ordinary patent cases. Injunctive relief is an important part of the patent law, and in most cases there will be no question as to the patentee's entitlement to such relief. To begin, equity warrants an injunction if the patentee practices the patent in competition with the accused infringer. Even if it doesn't, if the patentee sells a different product in the marketplace, equity should entitle it to an injunction to prevent its own invention (in the hands of an infringer) from competing with the product it does sell. Similarly, if patentees assign or exclusively license the patent to someone who competes in the marketplace, they should also be entitled to injunctive relief. And even if the patentee hasn't done these things in the past, if it begins to do so in the future equity would support injunctive relief. Patentees also ought to be entitled to an injunction in cases where the defendant copies the idea from the patentee, even if the patentee is not participating in the market and has no plans to do so. Infringers shouldn't be able to intentionally take the patented technology knowing they will only have to pay a royalty. Even if none of these things are true, some injunctions won't lead to a risk of holdup, and so even patentees who don't meet any of the criteria listed above will often be entitled to an injunction.

That said, an absolute entitlement to injunctive relief can and does permit unscrupulous patent owners to "hold up" defendants by threatening to enjoin products that are predominantly noninfringing and in which the defendant has already made significant irreversible investments. In numerous cases, the parties settle for an amount of money that significantly exceeds what the plaintiff could have made in damages and ongoing royalties had they won. In these cases it is not the value of the patent but the costs to the defendant of switching technologies midstream that are driving the price. For example, one patent owner charges a 0.75% royalty for patents that don't cover industry standards, and 3.5% for patents that do cover industry standards. Mark R. Patterson, *Inventions, Industry Standards, and Intellectual Property*, 17 Berkeley Tech. L.J. 1043, 1059 n. 61 (2002). The technology isn't any better, but they can demand nearly five times as much money once the industry has made irreversible investments in a particular technology. This is of particular concern when the patent itself covers only a small piece of the product. A microprocessor may include 5,000 different inventions, some made by the manufacturer and some licensed from outside. If a microprocessor maker unknowingly infringes a patent on one of those inventions, the patent owner can threaten to stop the sale of the entire microprocessor until the defendant can retool its entire plant to avoid infringement. Small wonder, then, that patentees regularly settle with companies in the information technology industries for far more money than their inventions are actually worth. Defendants are paying holdup money to avoid the threat of injunctive relief. That's not a legitimate part of the value of a patent; it is a windfall to the patent owner that comes at the expense not of unscrupulous copyists but of legitimate companies doing their own research and development.

Traditional principles of equity give courts the tools to deal with this problem. Patent owners who do not manufacture the patented or any other competing good, and who seek only to license their invention at a reasonable royalty, should be entitled to injunctive relief only if they would be irreparably injured by the infringement. If the patentee has an adequate remedy at law, that fact properly cuts against granting injunctive relief. Those equitable principles also permit courts to consider the balance of the hardships, so that the ordinary grant of injunctive relief can be avoided where it would have significant negative consequences and little affirmative purpose, as in the case of the 5,000-component invention.

This case squarely presents that issue. eBay is a vibrant electronic marketplace with millions of users that contributes a great deal to the modern economy. The patentee does not compete with eBay in the market. Its interest is in obtaining a royalty. MercExchange can likely obtain a larger royalty from eBay by settlement if it can threaten to shut down eBay altogether. But in doing so it will not be capturing value associated with its invention, but value that eBay has actually contributed to the world. We do not express an opinion on how the application of the traditional equitable factors would actually come out in this case, but it is clear that there are significant issues that should have been considered and which the Federal Circuit's mandatory injunction rule has short-circuited.

III. This Court Is the Only Forum Reasonably Available to Redress This Problem

The Federal Circuit has had virtually exclusive jurisdiction over patent cases since 1982.[3] Before that time, some regional circuits denied permanent injunctive relief to patent owners based on their application of traditional equitable principles. *See, e.g., Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974); *Vitamin Technologists, Inc. v. Wisc. Alumni Res. Found.*, 146 F.2d 941, 956 (9th Cir. 1945); *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934). But because patent cases were never appealed to the regional circuits between 1982 and 2002, and only rarely since 2002, district courts are effectively bound to the Federal Circuit's mandatory injunction rule. Even in those rare modern cases in which regional circuits do hear patent cases, they may defer to the Federal Circuit's substantive legal rules. *See, e.g., Schinzing v. Mid-States Stainless*, 415 F.3d 807 (8th Cir. 2005). As a result, there is unlikely to be an opportunity for the legal standards to percolate through the various circuits. Unless this Court acts, the Federal Circuit's misreading of section 283 will become more and more firmly cemented in patent law, and parties will have neither incentive nor ability to present the issue in the future.

Nor can Congress easily solve this problem. While Congress is currently considering various proposals to reform the patent system, the existing statute unambiguously grants

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3. This Court recognized one exception to that jurisdiction in 2002: where a patent claim is filed only as a counterclaim to a non-patent cause of action, appeal is to the regional courts of appeals. *Holmes Group v. Vornado Air Circulation Sys.*, 535 U.S. 826 (2002).

courts the very equitable power that the Federal Circuit has denied them. When Congress has already spoken on an issue, and the circuit courts have ignored that congressional action, it should not be necessary to require Congress to reenact the same statute. It is the responsibility of the courts to apply the statute as it is written. Where the circuit courts have failed to do so, this Court should step in.

CONCLUSION

Amici respectfully urge this Court to grant the petition for writ of certiorari in order to confirm the applicability of traditional principles of equity to patent law.

Respectfully submitted,

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